# Effect of Corporate Governance Mechanisms on Financial Performance of Pension Fund Administrators in Nigeria 2014 to 2022

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## ABSTRACT

Poor corporate governance weakens financial performance of companies eroding the value of shareholder's equity. This prompted the quest to find out governance attributes that impact financial performance. The study investigated the effect of Board Size, Percentage of Executive Directors, Percentage of Female Directors, Customer/Branch ratio, and Number of Independent Directors on the Financial Performance of Pension Fund Administrators. Two control variables, the Number of RSAs and Funds under management were introduced so that confounding and other extraneous variables that can impact the regression result are checked. The study sample is 18 from the 19 existing Pension Fund Administrators as of December 2022. A secondary data source was extracted from the National Pension Commission's annual report and individual PFA's financial statements. The years covered spanned from 2014 to 2022. A multivariate regression model was used for analysis and findings revealed that Board Size and Number of Independent Directors were significant with p-values of 0.0102 and 0.0281 respectively. While Board Size had a positive impact on ROA that measured Financial Performance, having shown a positive coefficient. The effect of Independent Directors was negative. Based on this finding the study recommends that board size should be made adequate relative to the size of FUM to allow for a good span of control. Also, beyond size, the quality and experience of these Board members should be emphasized for maximum output and the concept of Independent Directors should be reviewed for effectiveness.

**Keywords:** ROA, Corporate Governance, Financial Performance, Contributory Pension Scheme

## INTRODUCTION

Corporate governance is one of the most discussed issues in the financial world because of the surgencies of several scandals that led to the collapses of big corporations like Barings Bank in 1995, Enron in 2001, WorldCom in 2002, Parmalat in 2003, Lehman Brothers in 2008 and many more. Corporate governance has been described by the Corporate Governance Institute of the United Kingdom as the system of rules, practices, and procedures by which a company is directed and controlled. Poor governance crisis led to the formulation of several Corporate Governance codes being inaugurated like, the Cadbury Committee Report of 1991 in the UK. Sarbanes Oxley Committee that produced the SOX Act of 2002 in the US. The National Pension Commission in Nigeria issued a Code of Corporate Governance for Licensed Pension Fund Operators 2008 followed by a Code of Good Corporate Governance for Insurance Industry in Nigeria 2009 by the National Insurance Commission. Later came another Code of Corporate Governance for Public Companies in Nigeria in 2011 from the stable of the Securities and Exchange Commission. The banking sector responded via the Code of Corporate Governance for Banks and Discount Houses in Nigeria by the Central Bank of Nigeria in 2014. Yet another Code of Corporate Governance for the Telecommunication Industry 2016, was issued by Nigerian Communications Commission. These codes were sectoral based creating room for grey areas where functions overlap.

However, section 73 of the FRCN Act 2011 which established the Financial Reporting Council of Nigeria ceded the responsibility of enforcing corporate governance in both private and public organizations to FRCN. This led to the presentation of the Nigerian Code of Corporate Governance 2018 which galvanized all the sectoral codes into two documents one for private and another for public companies with regulatory sanctions for non-compliance. Goel (2018) opines that corporate governance identifies the role of directors and auditors towards

shareholders and other stakeholders. Corporate governance is significant for shareholders as it increases confidence in the company for better return on investment. Historically, pension fund management in Nigeria remains a gory picture of schemes riddled with embezzlements, mismanagement, and lack of transparency Elekwa, Oko, and Ugwu (2011). From the introduction of the pension scheme in Nigeria by the colonial masters through the 1951 pension ordinance when pension was restricted to colonial lords and few Nigerians, to a new contributory pension scheme that involved both public and private workers. Nigerian Breweries pioneered the private sector pension in Nigeria in 1954 before The National Provident Fund. (NPF) came into being in 1961 for non-pensionable private sector employees. (Ahmad 2006). In 1997 parastatals were allowed to operate individual defined benefit pension schemes for their staff members and were empowered to appoint a board of trustees to oversee it. This led to the establishment of multiple pension schemes like the Military Pension Board, Police Pensions, Customs, Immigration, Prisons Pension Board et cetera. Since then, it has always been the story of one scam or the other. It is worth noting that these challenges led to the introduction of the contributory pension scheme in 2004 patterned after the model operated in the Latin American country of Chile which was viewed by Okoye & Eze (2013) as the panacea to the various problems created by the previous pension schemes in Nigeria. This new scheme separated the pension managers from those in the custody of the pension funds and absolved the Government from the pension process of collection, management, and even payment of pensions to deserving retirees. These measures became necessary because of the need for transparency even as there was the need to gain workers' and retirees’ confidence in the ability of the new scheme to deliver, both in terms of transparency and improved returns on investment. Kowalewski (2012) observed that different governance factors are found to be critical in accounting for the pension fund return on invested assets. One unique difference between the old pension scheme in Nigeria (defined benefit scheme), and the new defined contributory scheme is the burden of financial risk bone by the Contributor. Therefore, any factor that will improve financial performance must be of interest to the contributor, employee, regulator, etc. Ewuru & Okoye (2024) opines that reduction of waste is at the core of efficiency practice, in this vein, corporate governance will aid efficiency through waste reduction.

The extent to which corporate governance mechanisms affect the financial performance of pension schemes has been widely investigated. Polish pension funds Kowalewski (2012). The findings of a good percentage of researchers revealed that corporate governance best practices can improve the performance of firms including Nigerian pension schemes. Aliu & Alaudin (2018).

The rising cases of managers perpetrating their selfish interests at the expense of shareholders' benefit has led to concerns. This has resulted in lots of research on the impact of corporate governance on financial performance on a global scale sometimes relating to pensions. As stated by Kowaleski (2012) various scholars have observed positive associations between good corporate governance and company performance, affirming that corporate governance best practices can improve returns on assets ROA, Return on equity, ROE Profitability, etc. In Jordan Kanakriyah (2021), In Brazil, Oliveira, Beuren, & Vicente (2021) Aguilar (2014) United States, Kowaleski (2012) Poland, Cocco & Volpin (2007) United Kingdom etc. In Africa, where deviation from Defined Benefit Scheme to Defined Contributory Pension is becoming a norm. The impact of corporate governance on Pension fund performance has been assessed in Kenya by Ali, Letting & Chugelet (2022) and in Ghana by Akomea-Frimpong, Tenakwah, E S, Tenakwah, E.J. & Amonsah (2022). In Nigeria, the study of Corporate Governance's impact on financial performance appears to have been concentrated on other financial Institutions Mohamed (2019), especially banks. This is evident from the works of Ibenta & John (2016), Oladeji and Agbesanya (2019) Ogunmakin, Fajuyagbe, & Alayo (2020). Abdulahi & Isyaku (2021) and many more. However, only a few viewed corporate governance’s impacts on financial performance from the pension industry perspective in Nigeria. These few include Otinche (2013), Okoye, & Eze, (2013), Iziegbefian, & Onyekachukwu (2016), and Aliu & Alaudin (2018). These authors applied qualitative parameters in assessing corporate governance impact on financial outcomes except for Ajibade, Jayeoba, & Aghahowa, (2018) eventhough attributes used were generic rather than specific on corporate governance. The gap created by dearth of quantitative empirical approaches on mechanisms of corporate governance that affect financial performance is what this paper seeks to fill. In addition, none of the previous research focused on board characteristics and client service ratio, on the financial performance of pension fund administrators. Hence, a need to consider the effect of specific board attributes as corporate governance mechanisms that can affect the financial performance of Pension Fund Administrators in Nigeria.

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The conflict between company owners and management gave rise to the agency theory propounded by Jensen and Meckling (1976) this provides the theoretical basis on which this research was hinged. But in pension clime, the relationship between the contributor and the pension fund manager is akin to the shareholders and the manager's nexus in an ordinary business setting. Likewise, the relationship between the employer who remits 10 percent and the employee from whose salary (basic, housing, and transport) 8 percent is deducted and remitted to custodians who in conjunction with PenCom tames the potential conflict between the Contributor, Pension Fund Manager, and Employer. But despite structures instituted by both the National Pension Commission and the Financial Reporting Council of Nigeria. The pension industry has witnessed some corporate governance violations which calls for continuous surveillance. Some of these violations include the boardroom crises that rocked the board of First Guarantee Pension Fund Administrator where PenCom's investigation exhumed a lot of irregularities by a prominent shareholder who was reported by another shareholder for corporate governance violations centered on tunneling and conversion of official assets for private use. This forced regulator to sack the PFA's Board and instituted an Interim Management Board that managed the PFA from 2011 to 2020 when it handed over the company to the owners before it was acquired by Access Pensions. Secondly, the removal of the then Director General Mrs. Chinelo Anohu-Amazu, and her Subsequent replacement with Aliyu Dikko a former Managing Director at Premium Pension contravened section 19(5) of the Pension Reform Act. Again, Funsho Doherty a former Director at ARM Pensions who was not from the same geo-political zone as Mrs. Anohu-Amazu raised concern in the industry as the appointment was in breach of Section 21(2) of the Pension Act. Again the second replacement ran short of governance standards creating room for the acting DG to continue in office until she was made substantive Director General.

**Research Questions**

i) To what extent does the Number of Independent Directors affect the Financial Performance of PFAs in Nigeria?

ii) What is the magnitude of the effect of Board Size on the Financial Performance of PFAs in Nigeria?

iii) What is the degree of Board Independence on the Financial Performance of PFAs in Nigeria?

iv) To what extent will Gender Diversity affect the Financial Performance of PFAs in Nigeria

v) To what extent has the Financial Performance of PFAs in Nigeria been affected by Client Service Ratio?

**Research Hypothesis**

$H_{01}$ Number of Independent Directors has no significant effect on Financial Performance of PFAs in Nigeria

$H_{02}$ Board Size has no significant effect on the Financial Performance of PFAs in Nigeria

$H_{03}$ Board Independence has no significant effect on the Financial Performance of PFAs in Nigeria

$H_{04}$ Gender Diversity Has No Significant Effect on Financial Performance of PFAs in Nigeria

$H_{05}$ Client Service Ratio has no significant effect on the Financial Performance of PFAs in Nigeria

**Financial Performance and Corporate Governance**

Financial performance is a subjective measure of how well an organization is generating revenue from its primary mode of business using assets at its disposal. The term is also used as a measure of a firm's overall financial health over a given period. Inquisition into the connection between corporate governance and financial performance has been of mixed findings while some authors recorded the negative effect of corporate governance on financial performance Mendes de Oliveira, Beuren, & Vicente, (2021) others observed a positive significant impact of corporate governance on the profitability of the company in focus. The findings likely will be subject to the sector under consideration as well as the specific governance mechanism involved. According to Savitri,

Andreas, Syahza, Gumanti & Abdullah (2020), good corporate governance is perceived as a guarantor that a company will be sustained amid stiff competition as a company is expected to be profitable because profit is one of the key indicators of successful governance. This is justifiable because good governance avoids waste which impacts positively on the bottom line. Although pundits of the triple bottom line concept argue that profit is not the main reason for the existence of a company, one wonders if a company that makes perpetual losses will not be liquidated, or the company shares dumped if quoted on the exchange. Investment regulations guiding how pension fund is invested prohibit Pension Managers from investing in quoted companies that have not declared dividends consistently for the past three years.

**Board Size and Financial Performance.**

In management parlance, span of control seems to engender good supervision making size an issue in controlling the activities of subordinates. With technologies, like CCTV, biometric attendance registers, GPRS tracking devices, etc. size may not be as important as it used to be before the information technology era. This has led to conflicting results from various inquisitions made in this direction. A bigger board size entails bigger spending on emoluments while a smaller board size may limit the much-needed diversity to make the board formidable. Best practice recommended by the Nigeria Code of Corporate Governance requires that "The Board should be of a sufficient size to effectively undertake and fulfill its business; to oversee, monitor, direct and control the Company's activities and be relative to the scale and complexity of its operations" Findings from Jordan by Kanakriyah (2021) indicates that size had a significant positive effect on the profitability of pension funds. But on the contrary, Usman, Gurama, & Murtala (2020) from a sample of 122 companies listed on the Nigeria Stock Exchange found out that board size negatively affected ROA. Central Bank of Nigeria in her sectoral governance code specified a minimum of 5 and maximum of 20 directors for any licensed bank operating in Nigeria.

**Board Independence and Financial Performance.**

One peculiar challenge that is common amongst some boards of companies is the tendency for majority shareholders who are members of the board to profit at the expense of the companies' resources. One method used by majority shareholders to cheat minority shareholders is tunneling. Tunneling entails shareholders acquiring personal interest at the expense of minority shareholders which includes selling the assets of a company to affiliated firms at ridiculous prices, increasing their emoluments, using company assets to secure private loans, etc. One tool that can checkmate this type of fraud is the use of independent directors. Ya'u (2015) observed that Board independence amongst other board attributes had a positive but insignificant impact on fraud detection. Also, Lin (2010) discovered that independent directors in Taiwan were weak in addressing the challenge of abused related party transactions. An independent director is a director amongst the board of directors who does not have a material or pecuniary relationship with the company or related persons, except for sitting fees. (Kanakriyah 2021). The Nigeria Code of Corporate Governance defines an independent Non-Executive Director as a Non-Executive Director that does not possess a shareholding in the Company the value of which is material to the holder such as will impair his independence or over 0.01% of the paid-up capital of the Company, amongst other criteria. The emphasis on the character and personality of an independent Director is such that adequate consideration of it will improve governance.

**Financial Performance and Board Gender Diversity**

Boards of companies across the world are dominated by the male gender and recently there have been calls for female inclusive agenda amongst companies. According to the Nigerian Stock Exchange, Women make up 24% of Directors in the top 30 capitalized companies on the Stock Exchange. Whereas elsewhere in France, they constitute 44 percent as reported by Women's Global Representation on Boards as of 2019. The Central Bank of Nigeria regulations mandate a minimum of 30 percent female representation on boards of commercial banks in Nigeria. But eight years after that regulation was issued only 21 percent was achieved. The Securities and Exchange Commission (SEC) Code of Corporate Governance, and the Nigerian Code of Corporate Governance, 2018 (NCCG) encouraged the inclusion of women in board positions but did not specify the percentage or any action plan to enforce compliance. Investigations on the role of Female directors by Meah & Chaudhory (2019) from a sample of 110 listed firms in Bangladesh observed that female directors play a significant role in enhancing a firm's profitability.

### Client Service Ratio and Financial Performance

Client Service Ratio refers to the number of contributors and Retirees relative to the number of branches and service centers where these customers can access service. The National Pension Commission through its regulation specified that each pension fund administrator must open a branch in each state where the number of contributors is up to 10,000. Access to branches allows the customer to resolve their challenges easily. Principle 27 of the National Code of Corporate Governance emphasizes transparency. The target is that Communicating and interacting with stakeholders will keep them conversant with the activities of the Pension Company and aid them in making informed decisions. Adelowotan & Oshadare (2017) in their study of the impact of branch network growth on the performance of banks 'established that there is a positive relationship between the growth of the branches and the growth of Total Assets. This is possible because, in rural areas where there is little or no alternative, residents make do with available banks to save their money. In a similar vein, new employees will identify with pension fund administrators closer to them than the ones outside their vicinity despite the availability of technology that makes it possible to open and run an account with a PFA outside their state of domiciliation.

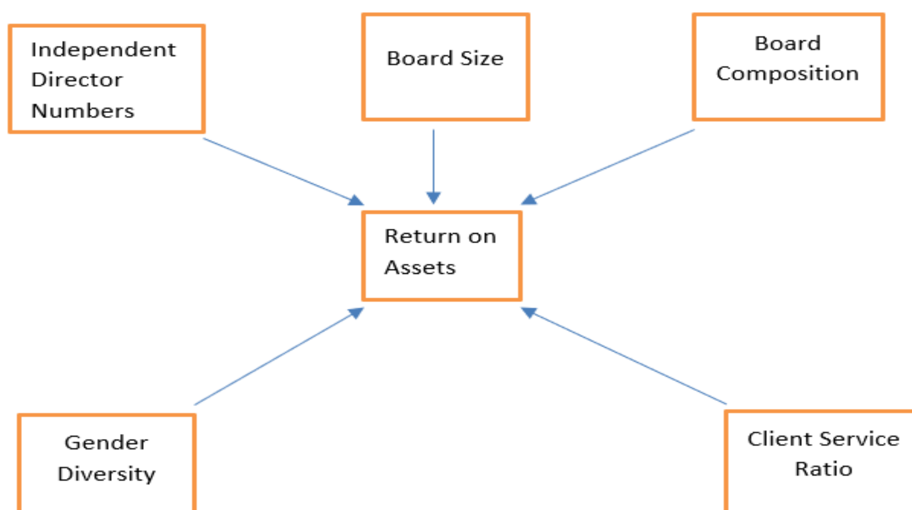
### Other Governance Mechanisms that Affect Performance

In the opinion of Kanakriyah (2021), There are a lot of variables that can affect the performance of board members, including but not limited to, administrative experience, experience in the functional field, industry field experience, educational/professional qualifications, gender, age, and nationality, the size of the BOD, and CEO-Chair duality (CEO duality), the ratio of shares owned by the members of the board, the number of board meetings, the board size, board independence, duties of the Chairman of the board, and independence and experience of the Audit Committee.

### Measure of Financial Performance

Measuring financial performance in this context can be approached using a lot of metrics ranging from financial ratio to net profit etc. From available literature based on previous research work, the most popular measures of financial performance are Returns on Equity ROE and Returns on Asset. Abdulazeez, Ndibe, and Mercy (2016), Ibe, Uwuanyi & Okanya (2017), Usman, Gurama, & Murtala, (2020), and many more used ROA as a proxy for financial performance. ROA has the advantage of avoiding comparing losing making company with profit making company. Since the value of Total Assets at the disposal of the Management for the continuous operation varies from one firm to another it is only proper to use it to assess how well they can use it to generate revenue. ROA provides an opportunity for optimal utilization of resources as assets not needed are disposed of to avoid low returns on assets.

Figure 1 Pictorial Connection of Corporate Governance Mechanisms and Return on Assets




Authors Conceptualization of Corporate Governance Mechanism and Financial Performance

## EMPIRICAL REVIEW

Usman, Gurama, & Murtala, (2020) using a sample of 122 non-financial companies listed on the Nigerian Stock Exchange between 2014 and 2015 investigated the impact of board characteristics on the Return on Assets (ROA) and Returns on Equity (ROE). Findings show that while board size hurts ROA and ROE, Board Independence had a negative but not significant on ROA and ROE

Meah & Chaudhory (2019) investigated the impact of corporate governance using board characteristics: board size, female directors, family duality, and director ownership on a firm's profitability in Bangladesh. Using 110 manufacturing firms listed in the Dhaka Stock Exchange between 2013 and 2017 as a sample. Their findings reveal that larger board size and the presence of female directors on the board positively impact the firm's profitability, while the percentage of shares held by the directors and family duality is negatively related to the firm's profitability.

Examining the relationship between Corporate Governance and Fraud Prevention & Detection in the Banking Industry in Nigeria, Ya'u (2018) observed the role of Board Independence, Size of the Board, Composition of the Board & Audit Committee Composition with loss as a proxy for Fraud prevention. Data from the annual financial reports and accounts of sample banks and NIDC reports were analyzed using descriptive statistics and Linear regression. The outcome of the study revealed that Board Independence, Composition of the Audit Committee, and Board Composition have a positive insignificant impact on fraud prevention. However, Board Size (BS) has a significant relationship with Fraud prevention. He, therefore, recommended that the size of the Board be increased to provide effective oversight of the banks which will help in Fraud prevention.

Oliveira, Beuren, & Vicente, (2021) analyzed the relationship between good corporate governance practices from the perspective of access to information, published information content, and structure of management to the profitability of 76 Pension Fund in Brazil. Their findings show that good corporate governance has no significant influence on the financial performance of Pension Funds in Brazil

Aliu, Alaudin & Hamid (2019) Survey data from 212 managers and assistant managers of contributory Pension Scheme operators were analyzed using a one-sample t-test and mixed ANOVA. The outcome shows significant practices of corporate governance mechanisms in the form of board composition and disclosure. However, there was no significant difference in Corporate Governance practices among various types of contributory pension operators.

Meah & Chaudhory (2019) investigated the impact of corporate governance using board characteristics: board size, female directors, family duality, and director ownership on a firm's profitability in Bangladesh. Using 110 manufacturing firms listed in the Dhaka Stock Exchange between 2013 and 2017 as the sample. Their findings reveal that larger board size and the presence of female directors on the board positively impacted the firm's profitability, while the percentage of shares held by the directors and family duality is negatively related to the firm's profitability.

In 2015 Reguera-Alvarado, Fuentes & Laffarga made two relevant conclusions after examining the relationship between board gender diversity and economic results in Spain where mandatory female quota in boardrooms is not optional. First, their findings showed a positive relationship between board gender diversity and positive economic results an indication that having more women in governance positions increases the business performance. This finding was based on 125 nonfinancial companies listed on the Madrid Stock Exchange

Lin (2010) reviewed the ability of independent directors in Taiwan to curb abusive related party transactions otherwise called tunneling, which refers to unwholesome business practice in which a majority shareholder or high-level company insider directs company assets or future business to themselves for personal gain. The result shows that the independent director's oversight of related party transactions or tunneling is generally weak. This finding is not different from what we have seen in the board of First Bank holding where despite the presence of two independent directors in the 10-man board. The controlling shareholder and chairman of the board were able to perpetrate abusive related party transactions via non-performing loans to companies where he has a major stake without adequate collateral. This confirms that the task of constraining controlling shareholders is a major

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concern that corporate governance rules and codes have not been able to address. Industry players always find a way around these regulations and codes using special-purpose vehicles sometimes.

# DATA ANALYSIS AND RESULT

Table 1: ARDL and ARDL bound test result.

| **Dependent Variable**: LROA; **Sample (adjusted)**:2014- 2022; **Model selection method**: Akaike info criterion (AIC); **Number of models evaluated**: 12500 **Selected Model**: ARDL (4, 4, 4, 4, 4, 4) | | | | |
|---|---|---|---|---|
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.*** |
| LROA (-4) | -1.633650 | 0.312859 | -5.221688 | 0.0137 |
| LBDZ (-4) | 0.497032 | 0.085677 | 5.801202 | 0.0102 |
| LNED (-4) | -0.127730 | 0.053537 | -2.385816 | 0.0971 |
| LIND (-4) | -0.395835 | 0.099061 | -3.995877 | 0.0281 |
| LFMD (-4) | 0.084496 | 0.055099 | 1.533538 | 0.2227 |
| LCSR (-4) | -0.030207 | 0.033296 | -0.907225 | 0.4312 |
| C | 9.474307 | 2.675842 | 3.540683 | 0.0383 |
| *R-squared = 0.999240* | | | | |
| *Adjusted R-squared = 0.991892* | | | | |
| *F-statistic = 135.9849* | | | | |
| *Prob(F-statistic) = 0.000887* | | | | |
| *Durbin-Watson stat = 2.294892* | | | | |

Source: Researcher's extract from E-views result (2024) [See Appendix B]

So, the equation of the regression from the t- t-statistics above is:

$$ROA_t = \beta_o + \beta_1 BDZ_t + \beta_2 NED_t + \beta_3 IND_t + \beta_4 FMD_t + \beta_5 CSR_t + \mu_t$$

Which implies:

$$Y = -1.6337 + 0.4970BDZ - 0.1277NED - 3.99587IND + 0.0845FMD - 0.0302CSR$$

This shows that only BDZ and FMD show positive relations with ROA, while NED, IND, and CSR show negative impacts on ROA.

**Test of Hypothesis**

**Hypothesis One**

$H_{01}$ Number of Independent Directors has no significant effect on Financial Performance of PFAs in Nigeria Interpretation of result

From Table 1 above Number of Independent Directors IND has a coefficient of -0.35835 an indication that the

number of Independent Directors harms the financial performance of Pension Fund Administrators. Also, a unit change in the number of Independent Directors will lead to a 0.37 change in ROA.

Decision Rule: Reject the Null Hypothesis if the p-value is less than 0.05

From the table above P value = 0.028, therefore, we reject the Null Hypothesis. The alternate hypothesis which states that there is a significant relationship between the Number of Independent Directors and the Financial performance of a PFA is therefore upheld.

**Hypothesis Two**

$H_{02}$ Board Size has no significant effect on the Financial Performance of PFAs in Nigeria Interpretation of result

From the table above board size has a positive coefficient of 0.4970 indicating that a unit change in the size of the board will lead to 0.497 changes in the ROA of a PFA

Decision Rule: Reject the Null Hypothesis if p-value is less than 0.05

From the table above P value = 0.010 therefore we reject Null Hypothesis. The alternate hypothesis which states that there is a significant relationship between Board Size and the financial performance of a PFA is upheld.

**Hypothesis Three**

$H_{03}$ Board Independence has no significant effect on the Financial Performance of PFAs in Nigeria Interpretation of Result

From the table above Board Independence represented by NED has a coefficient of -0.1277 meaning when there is a unit change in the number of non-executive directors the financial performance of the PFA decreases by 0.1277.

Decision Rule: Reject the Null Hypothesis if p-value is less than 0.05

From the table above P value = 0.097, therefore, we uphold the Null Hypothesis stating that Board Independence has no significant effect on the Financial Performance of PFAs in Nigeria

**Hypothesis Four**

$H_{04}$ Gender Diversity Has No Significant Effect on Financial Performance of PFAs in Nigeria Interpretation of result

From the table above the impact of Gender Diversity on Returns on assets was not significant. The coefficient of 0.0845 points out that a unit increase in the number of Female Directors will increase the financial performance by 0.0845

Decision Rule: Reject the Null Hypothesis if the p-value is less than 0.05

From the table above P value = 0.222 therefore we uphold the Null Hypothesis which states that Gender Diversity Has No Significant Effect on the Financial Performance of PFAs in Nigeria

**Hypothesis Five**

$H_{05}$ Client Service Ratio has no significant effect on the Financial Performance of PFAs in Nigeria Interpretation of Result

From Table 1 the coefficient of the Client Service Ratio is -0.0302 meaning that a unit change in the Client Service ratio will result in a 0.0302 decline in ROA albeit not significant

Decision Rule: Reject the Null Hypothesis if p-value is less than 0.05

From the table above P value = 0.4312 therefore we uphold the Null Hypothesis which states that the Client Service Ratio has no significant effect on the Financial Performance of PFAs in Nigeria

## SUMMARY OF FINDINGS

i) The analysis of the coefficient reveals that the size of the board has a positive effect on the financial performance of pension fund administrators and is statistically significant at 5 percent. This aligns with the findings of Meah & Chaudhory (2019) but is contrary to Usman, Gurama, & Murtala, (2020). On the other hand, the number of Independent Directors although significant at 5 percent harmed the financial performance of PFAs. This is related to the discovery of Lin (2010) in Taiwan that the presence of Independent Directors was not able to curb tunneling. Koerniadi, & Tourani-Rad, (2012) got a similar result in New Zealand likewise Swan & Forsberg (2014) in Australia. The presence of Independent Directors can have negative effect on financial performance if the Directors in question has taken multiple director position is other companies. Situations like this will force Directors to run crashed directorship functions for companies where they have least commitment. Moursli (2020) found cases like this in Sweden. Engaging Directors without requisite pension or financial experience can equally led to negative impact owing to market reaction.

ii) The coefficient of the remaining independent variables i.e. Gender Diversity was positive aligning with Reguera-Alvarado, Fuentes & Laffarga (2015). But the Percentage of Executive Directors and Customer Service Ratio were negative. However, these three variables are not significant at 5 percent.

## CONCLUSION

The financial performance of any business outfit is very key to the sustainability of that organization irrespective of the sector. Since one of the major expectations of shareholders from directors is prompt payment of good dividends it becomes important that those corporate governance mechanisms that can affect returns on assets need to be investigated and the findings applied in improving the financial performance of the company. The focus of the study, therefore, was to shed light on the impact of corporate governance on the financial performance of selected pension fund administrators, The findings show that Board Size has a significant and positive impact on the financial performance of pension fund administrators while the effect of Independent Director was significant and negative.

## RECOMMENDATIONS

Considering the study findings, the following recommendations are made. Board Size from the analysis carried out, has a positive impact on the financial performance of Fund Administrators in the Pension Industry. It is therefore recommended that: the National Pension Commission should prescribe a minimum number of directors and qualifications for licensed operators in the pension industry. This should align with the content of the National Code of Corporate Governance. Other measures of financial performance like Returns on Equity should be used over these mechanisms involved in this research to consider if the effect will be different from the result obtained from this investigation.

Contribution to Knowledge Previous studies on corporate governance mechanisms in Nigeria and financial performance concentrated on the banking sector. As noted, most of the studies on corporate governance's impact on the financial performance of pension industry players were qualitative. This work took a quantitative approach to the subject matter and involved all the pension fund administrators in Nigeria except NUPEMCO. Furthermore, whereas other authors concentrated on board characteristics as measures of governance attributes. This study went beyond board characteristics to factor in client service ratio.

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